UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
GENERAL

TD/B/CN.3/8
15 September 1994

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Standing Committee on Economic Cooperation
among Developing Countries
Second session
Geneva, 14 November 1994
Item 3 of the provisional agenda

STRENGTHENING SUBREGIONAL AND REGIONAL INTEGRATION AND FOSTERING INTERREGIONAL COOPERATION, AS WELL AS PROMOTION AND EXPANSION OF TRADE AMONG DEVELOPING COUNTRIES

Report by the UNCTAD secretariat

GE.94-53684

CONTENTS

Chapter		Paragraphs
	Introduction	1 - 4
I.	MAIN TRENDS IN RECENT POLICY INITIATIVES	5 - 12
II.	MAIN PROBLEMS AND OBSTACLES	13 - 23
	A. Objectives of integration	13 - 14
	B. South-South trade expansion	15 - 23
	1. Intra-grouping trade liberalization and expansion	15 - 17
	2. Trade policies and trade control measures	18 - 23
	C. Monetary and financial cooperation	24 - 32
	1. Trade-finance	24 - 27
	2. Export-credit guarantees	28 - 29
	3. Clearing and payments arrangements	30
	4. Exchange rates	31
	5. Foreign exchange and credit regulations	32
	D. Trade information and support services	33 - 34
	E. Transport	35
	F. Implementation	36 - 43
	1. Legal and institutional aspects	37 - 42
	2. Business sector participation	43
III.	MAIN POLICY ISSUES AND RECOMMENDATIONS	44 - 64
	A. Trade liberalization	44 - 50
	B. Monetary and financial cooperation	51 - 54
	C. Trade information and support services	55 - 56
	D. Production and investment collaboration	57 - 59
	E. Transport	60
	F. Institutional aspects	61 - 62
	G. External support	63
	References	

INTRODUCTION

1. This report has been prepared to assist in the discussion of item 3 of the provisional agenda for the second session of the Standing Committee on Economic Cooperation among Developing Countries adopted by the Committee at its first session in January 1993, and in conformity with its work programme adopted at the same session.[1] The report should, where appropriate, be read in conjunction with the report prepared for item 4 of the provisional agenda (TD/B/CN.3/9), as the latter gives details of the trends and policies outlined in the former.

2. The paper is in three parts. Chapter I contains a brief overview of the trends in policy initiatives taken in recent years in strengthening integration and cooperation processes and in promoting trade among developing countries. It shows that developing countries are not only taking measures to promote mutual trade expansion as the centre-piece of economic cooperation among themselves through the reinforcement of trade liberalization programmes, but also fostering cooperation in other areas such as industry, investment, money and finance, infrastructure and political matters.

3. Chapter II deals with the main problems and obstacles to the strengthening of economic integration and South-South trade expansion. Such problems relate to the objectives of integration, intra-grouping trade expansion, trade policies and trade control measures, various forms of monetary and financial cooperation, information and other trade support services, transport, and implementation aspects.

4. In chapter III, the main policy issues and recommendations for action are discussed with regard to trade policy and trade control measures and the development of services supporting trade expansion and economic integration such as monetary and financial cooperation, trade information services, and production and investment collaboration. The chapter also briefly discusses the question of transport links among developing countries, the institutional set-up and external support.

I. MAIN TRENDS IN RECENT POLICY INITIATIVES[2]

5. The spectacular changes which have occurred on the international scene in recent years have generated new thinking, new attitudes and new approaches regarding the development problematic. Among developing countries, the search for a fresh vision of development consistent with the new realities manifested itself in their external economic-policy reforms aimed at enhancing their effective integration into the world economy. These reforms mainly relate to the switch from inward import-substitution-oriented policies to outward export-oriented and market-based policies of development with all their inherent features such as the liberalization of trade, deregulation of domestic economies, freeing of prices and removal of subsidies, moves towards currency convertibility, privatization of State-owned production and marketing enterprises and liberalization of investment laws to encourage more foreign investment.

6. At the same time, developing countries have striven to widen and deepen the process of regional and subregional economic integration and cooperation among themselves. The revival of expectations in subregional/regional economic integration and cooperation manifests itself in various forms, including: the adoption of treaties to create new economic groupings [e.g. the East African Community, the Association of Caribbean States]; the transformation of the character of existing groupings [the Preferential Trade Area for Eastern and Southern African States (PTA), the Southern African Development Community (SADC), the Central American Integration System (SICA)]; the revision of old treaties to introduce new elements and modalities to update and deepen the integration process, to widen the scope of cooperation, and to ensure more effective and speedy progress towards the realization of functional subregional/regional communities [the Economic Community of West African States (ECOWAS), the Caribbean Community (CARICOM), the Association of South-East Asian Nations

(ASEAN)]; and the enlargement of membership of economic groupings to cover wider geographical areas [PTA, the Economic Cooperation Organization (ECO) and the Bangkok Agreement].

7. Trade expansion through some form of customs union arrangement remains the centre-piece of subregional and regional economic integration. Many economic groupings have recently adopted measures to launch new trade liberalization programmes or strengthen the existing ones with the objective of achieving fully integrated subregional/regional economies. Efforts to this effect are taking place not only in Africa and Latin America and the Caribbean but also in Asia, which in the past tended to eschew deeper customs union schemes.

8. Nevertheless, from past experience, developing countries have come to realize that trade liberalization alone cannot bring about significant trade expansion if it is not coupled with cooperation in production and investment, especially with the involvement of the enterprise sector and its associations, and in physical infrastructure development and networks. Accordingly, attention is increasingly being paid to fostering cooperation in developing all these trade-supportive structures which contribute to the creation of an enabling environment for economic cooperation. Also in the area of monetary and financial cooperation, new instruments have been introduced in existing schemes and new facilities established. For example, some multilateral clearing and payments arrangements introduced traveller's cheques, swap arrangements or reserve funds, while new trade financing and export credit guarantee facilities were established, such as a short-term credit facility for commercial banks, a financing and rediscounting facility, and a reinsurance facility.

9. Moreover, many economic groupings have extended their cooperation to political, and sometimes military or regional security, matters. This has its merits as it opens the possibility of settling political differences within or between States which have often blocked progress in the implementation of integration programmes. Such cooperation could also assist in maintaining regional peace, without which no economic integration activities can be undertaken.

10. Finally, most economic groupings implement programmes in other areas such as external relations with the international community, human resources development, women in development, education, environment, health, technology, tourism and common disaster assistance.

11. The process of subregional and regional economic integration and cooperation has entered a new phase of revival and change which is likely to expand economic interrelations and strengthen political, social and cultural solidarity and functional cooperation among developing countries. Maintaining the momentum of this resumed phase of dynamism requires as a starting point the full implementation of the new integration/cooperation programmes agreed upon as these would constitute the building blocks for integration over the long run. Economic groupings understand this requirement and are taking various measures to accelerate the integration process among their member States.

12. Since the beginning of the 1990s, a novelty in the historical process of international cooperation for development has been the emergence of mixed groupings involving both developing and developed countries which focus on both trade and investment cooperation. The emergence of expanded economic spaces in Europe and North America and the consequent concern among some non-participating developing countries over their possible marginalization from these markets has fortified these countries' resolve to seek closer trading links with the mega-trading blocks. Thus, the establishment of the North American Free Trade Area (NAFTA) and the launching of the "Enterprise for the Americas" initiative of the United States have stimulated the interest of many Latin American countries and their groupings in joining NAFTA, like Mexico, or establishing free trade agreements with the United States within the framework of the above-mentioned initiative. Developing countries and territories of the Pacific Rim have expressed a strong interest in joining the Asia Pacific Economic Cooperation

(APEC). APEC, which was launched in 1989 as an informal grouping of 12 Asia-Pacific economies, was joined in late 1991 by China, Hong Kong, and Taiwan Province of China and, in late 1993, by Mexico and Papua New Guinea. Furthermore, a number of economic groupings such as the Arab Maghreb Union (UMA) and the Cooperation Council for the Arab States of the Gulf (GCC) have been discussing and negotiating possible free trade accords with the European Union.

II. MAIN PROBLEMS AND OBSTACLES

A. Objectives of integration

13. One major criticism of integration groupings is that their objectives are often too ambitious. It is said therefore that these objectives should be reduced in number and limited to, for example, cooperation in particular sectors (e.g. transport). However, it seems that the problem relates more to the timetables and sequencing of implementation rather than to the multi-sectoral character of their objectives. In most agreements for economic integration, there were provisions that all the member countries had to simultaneously accomplish the objectives in each stage, and within a given time period, which was often too short.

14. At present, for instance, most groupings have decided to establish free trade areas or common markets by around the year 2000. There is naturally a desire to consummate the common market process within the shortest period possible. Many member States, however, have not been able to keep up the pace, given their wide differences in stages of development, tariff structures and macroeconomic policies. Consequently the member State with the slowest rate of implementation has tended to determine the pace of the entire grouping's progress towards economic integration. This has often resulted in implementation of lagging far behind the agreed timetables of planned activities.

B. South-South trade expansion

1. Intra-grouping trade liberalization and expansion

15. As stated earlier, mutual trade expansion has been and remains the centre-piece of subregional/regional economic integration and of interregional cooperation among developing countries. Most integration groupings have focused their attention on intra-grouping trade liberalization measures and many others are moving toward free trade areas and common markets. This has been or is being done through tariff concessions, either across the board or, more often, for products in a negotiated list effective over a given period of time. The relaxation of non-tariff barriers is also provided for. In general, however, progress toward intra-grouping trade liberalization has been rather slow and intra-grouping trade remains small in comparison with total trade.

16. This is due to a number of problems such as: difficulties in the standardization and eventual harmonization of customs documents and tariff schedules; stringent rules of origin which often disqualify the bulk of manufactured and agricultural goods produced by member States; the fear, especially on the part of the less advanced countries, of loss of fiscal revenue; severe inadequacy of trade information; and problems of balancing the distribution of benefits and costs of economic integration, in particular, the possibility of industrial polarization in the more advanced member States.

17. In addition, in implementing trade liberalization measures, some groupings paid less attention to other sectors supporting trade expansion, such as production integration or monetary and financial cooperation, as well as the establishment of trading and banking networks.

2. Trade policies and trade control measures

18. The trade regimes of most developing countries in the 1970's and 1980's were protective, regardless of whether they followed policies of import substitution, export promotion or any mixture of the two. While this stance impeded both North-South and South-South trade, its impact on the latter was relatively stronger due to several reasons discussed below.

19. The tariffs of developing countries have certain characteristics in common which affect South-South trade more heavily than North-South trade, namely:[3]

(a) Average tariff rates still remain high when compared with those in developed countries - close to 40 per cent in developing countries as compared to slightly less than 5 per cent in developed - despite the fact that they have decreased over the past five years in most developing countries;

(b) In general, tariffs are lower for capital goods, which implies that the effective rate of protection of each specific industry tends to be higher than the nominal rate, thus producing a bias towards imports from developed countries which include much of the high-value capital goods;

(c) Because of the similarity in the productive structures of many developing countries, except those most industrially advanced or diversified, the pattern of protection tends to be similar, implying that products with the highest trade potential, by virtue of the production structure or comparative advantage, are also the most highly protected in other developing countries.

20. Non-tariff barriers of developing countries are often the result of the balance-of-payments problems and trade aspects of industrial policy. They include quantitative restrictions, prohibitions, licensing, prior depositing of foreign exchange, and rationing of hard currency. To the extent that South-South trade is not predominated by capital goods and industrial inputs and does not bring in as much hard currency, the relative weight of non-tariff barriers is heavy on South-South trade as compared to North-South trade. In addition, trade-supporting services (finance, trade information, etc.) in the South are weak, and thus traders from the South are generally less able to navigate through the maze of non-tariff barriers and bureaucratic procedures.

21. In recent years, many developing countries undertook trade liberalization and economic policy reforms to mitigate these problems. However, because such changes are yet to reduce tariffs to sufficiently low levels and eliminate much of the non-tariff barriers, and still have not changed radically the pattern of protection, the benefit of these changes seem to accrue more to North-South trade than to South-South trade.

22. To overcome access problems, many developing countries have embarked on an exchange of trade preferences with their developing country partners. Many such schemes exist at regional and subregional levels. In many instances, they involve multiple arrangements. Some countries run six different trade preference regimes according concessions to different groups of countries, in some cases with overlapping membership.

23. In general, the speed of unilateral liberalization, often an integral part of structural adjustment programmes, has exceeded the speed of changes in intra-developing-country trade preferences, leaving such preferences with shallow margins. The product coverage of many of them is not deep enough. In some cases, the products for which concessions are provided consist mostly of export goods of the conceding country (hence of little benefit for the preference-receiving countries) or of goods which are already accorded a most-favoured nation rate of zero (thus rendering concessions meaningless). Examples of these features can be found in some of the GSTP concession lists, and trade under GSTP still accounts for less than one per cent of the trade among participating countries.

C. Monetary and financial cooperation

1. Trade-finance

24. The dearth of trade-financing facilities is a hallmark of many developing countries. According to an UNCTAD survey on the institutional capacity of trade-finance in developing countries, published in 1991, only 16 countries had fully fledged and specialized trade-finance institutions.[4] In fifty-six countries there was some modicum of institutional capacity, usually lodged at the central banks, which are by their very nature removed from trade-finance and have different, and sometimes even conflicting, objectives.

25. The terms and conditions typically offered by developing country institutions to their exporters are disadvantageous; the conditions of lending, in particular the collateral demanded, re onerous; and the percentages of exports financed are meagre. The credit, when extended, is short-term, and when commercial banks are involved, they usually extend such trade finance only to big established customers as part of bank-customer relationships.

26. In most developing countries, the institutional and financial capacity shortage has a particular impact on small and medium-sized exporters and on non-traditional exports (defined as either new exports or those calling for medium-term credit). The UNCTAD survey mentioned above highlighted the severe paucity of pre-shipment credit in foreign exchange. Post-shipment credit, while slightly more abundant, was also scarce.

27. These problems affect in particular South-South trade because developing-country importers are usually unknown to their exporters, their credit rating is seldom known to the exporter's banking sector, and the banks which might guarantee and sign their debts are either unknown in the exporter's banking sector or have no relationship with the domestic banks. Because of these discontinuities in the banking sectors, many exporters and importers have recourse to developed countries' banks to finance such trade, thereby incurring extra costs and tougher conditions than those enjoyed by developed country exporters and exporters to the North. In this context, it should be recalled that when the debt problem exploded, the country risk of the debtors was immediately superimposed on the credit risk of developing country exporters and importers, with the result that export credit dried up even for perfectly credit-worthy and viable transactions. Finally, it must be noted that international banks do not, as a matter of policy and preference, extend finance on a medium-term basis to exporters; trade-credit on longer terms can only be obtained from international markets as part of bank-customer relationships. This inevitably favours big firms with established credit records and is usually costly and limited in amount.

2. Export-credit guarantees

28. The significance of guarantees rests on two considerations. First, it enables creditors to offload their paper to other financial institutions in the domestic market, thereby increasing the funds available for trade-finance institutions. Second, it endows the guaranteed trade-finance paper with negotiability. In turn, "negotiable instruments" can be marketed in international financial markets such as the forfaiting market, thereby tapping external financial resources. Since guarantees presuppose the existence of trade-finance instruments and institutions, as well as a rating system for the credit standing of signatories, the institutional deficiency of developing countries in this respect is more acute than in trade-finance.

29. There are very few guarantee schemes in developing countries and less than a handful of regional/multilateral ones active in South-South trade credit. Views differ as to whether this function ought to be performed by the same institutions extending trade finance or separate specialized institutions. It would be preferable however to separate the two institutions for several reasons.

First, a finance institution will not have credibility if it does not charge the guaranteed paper at 100 per cent against its capital. Second, in most developing countries, guarantee institutions have to do the rating themselves, and their credibility depends on their independence. Finally, guarantees are a specialized business distinct from trade-finance.

3. Clearing and payments arrangements

30. Clearing and payments arrangements have been a prominent form of monetary and financial cooperation among developing countries; there have been in fact seven such arrangements.[5] Some of these have been successful due to a variety of reasons: the balance of the underlying trade, the scrupulous settling of debts, the size and multilateralism of the cleared trade, and the absence of persistent creditor or debtor parties. When such arrangements were successful (e.g. Asian Clearing Union (ACU), Latin American Integration Association (ALADI), PTA), clearing proved to save foreign exchange, offer some short-term trade-credit (when the arrangements had some credit lines or swaps), and reduce the cost of transactions. Even with convertibility becoming widespread, there are still real benefits from these arrangements:[6] they offer credit access and in the case of swaps, short-term balance of payments support; they enable traders to bypass intermediation through the international banking system and thereby reduce such costs as banking fees; they help harmonize trade regulations and offer a forum of monetary cooperation; they still save foreign exchange in the process of achieving convertibility, which might take years; and, finally, they promote policy coordination and expand the dimension of institutional integration.

4. Exchange rates

31. Two aspects of this problem have a special bearing on South-South trade. The first concerns the volatility of developing countries' exchange rates, and the second the impact on the terms-of-trade and competitiveness of movements of exchange rates under generalized floating. The first problem increases uncertainty and the cost of trade in view of the fact that hedging the foreign exchange risk is not always available for developing-country currencies and is costly when available. Where hedging in major trading currencies is available, the exporters/importers often run up against the foreign-exchange restrictions in force. As to the second aspect, movements against third currencies, especially those of competitors, considerably affect the competitiveness of exporters with their established trade partners, and thus make their profits more volatile. Since South-South trade is not highly diversified, the incidence of such losses is not likely to be averaged out.

5. Foreign exchange and credit regulations

32. The foreign-exchange and credit regulations in developing countries are in the main restrictive and form a part of the panoply of trade controls and trade policies under conditions of foreign-exchange shortage. As far as South-South trade is concerned, the following problems can be identified: restrictions on holding foreign exchange abroad; restrictions on borrowing from abroad and lending to developing country importers; divergences between market exchange rates and official rates; restrictions on the right of establishment of other developing country trade-finance institutions; and regulations on surrender of foreign exchange and advance foreign exchange depositing. The policy reforms undertaken by many developing countries have not yet attained a sufficient degree of liberalization to overcome all of these problems. Less than a dozen developing countries can be counted among the countries free of any capital controls.

D. Trade information and support services

33. Exporters in developing countries lack adequate trade information facilities. Similarly, importers, used to the sophistication of established suppliers from the North, lack knowledge of developing country exporters and have little experience with the standards of developing country exports. The customs procedures of developing countries are not all standardized and harmonized with international norms and are typically complicated and lengthy. Moreover, product standards and safety norms are diverse and information regarding them is not well disseminated. These hindrances increase transaction costs for participants in international trade and prevent some companies from reaching international markets.

34. South-South trade is particularly hampered by these obstacles. Historical factors led to a much larger number of trade links being established between developing and developed countries than among developing countries themselves. Perhaps more importantly, South-North traders can rely on the extensive trade information networks available in the North to supplement the poor facilities available in the South. This is not the case for trade among developing countries.

E. Transport

35. Free or easy movement of goods and people (mainly traders and other businessmen and investors) is one of the main conditions for the success of any trade expansion programme. However a major impediment to trade among developing countries has been the cost and inadequacy of transport. Indeed transport costs tend to be higher in developing countries than in developed countries. While freight costs were on average 4.4 per cent of the c.i.f. import value of developed market economies, the equivalent figure for developing countries was double, viz. 8.8 percent in 1990.[7] In addition, given that most of the transport infrastructure of developing countries was set up with a view to supporting South-North trade, transport costs between developing countries are even higher than average transport costs in individual developing countries. In some cases, transport links between developing countries do not exist at all.

F. Implementation

36. Although subregional, regional and interregional unity, cooperation, coordination and integration is a basic concern of developing countries, operational activities to promote these objectives have generally lacked sufficient impetus for a variety of reasons. Some of these reasons are linked to the adverse external economic conditions of the 1980s, which undermined the developing countries' capacity to cooperate. However, other reasons which are inherent to the process of economic cooperation and integration exist, as delineated below.

1. Legal and institutional aspects

37. The proliferation of cooperation and integration groupings with overlapping membership and objectives, especially in Africa, has been one of the factors which undermined their effectiveness. For instance, most groupings depend on financial support from members, and countries that have membership in two or more groupings incur heavy financial burdens which are often beyond their means. Consequently, these countries cannot pay the financial contributions they owe to such groupings and they accumulate considerable arrears. Thus many groupings are experiencing great financial difficulties which have reduced them to implementing only a minimum part of their work programmes with a small number of professional staff.

38. The situation of groupings with overlapping objectives and functions within the same subregion creates a strong potential for duplication of activities, leading to uneconomical use of valuable and scarce financial and human resources. Attendance at high-level meetings of these groupings becomes costly and onerous for member States. These meetings often generate a plethora of decisions and acts which can be not only confusing to member States but also an administrative burden. For example, for a country with membership in three integration groupings, the coordination and application of common transit documents and customs forms becomes unmanageable for working officials.

39. Moreover, many of these groupings have not been successful in mobilizing external resources for financing their cooperation projects due, to competition between too many potential recipients of the limited resources made available by the same donors.

40. Implementation of decisions has often been a lengthy and frustrating process. Delays have been registered at each of the three phases of the implementation mechanism, namely: the ratification by member countries; the adoption of the required national legislation; and the actual implementation.

41. During the implementation phase in particular, one of the major causes of delay or non-implementation has been the inadequacy of the institutional capacity to fully implement the agreed programmes. Cases have been documented where policies were simply not implemented long after their formal adoption.[8] Moreover, national follow-up mechanisms are generally lacking for most groupings. This lacuna is manifested in member States's slow and low rate of ratification and implementation of acts and decisions adopted by the governing bodies of groupings. This contributed in some degree to a delay in the launching of trade liberalization schemes and to a failure in fulfilling financial obligations by member States.

42. A number of other factors created difficulties in the implementation of integration or cooperation programmes, such as: (a) difficulties in implementing any compensation or equalization scheme that involves transfer of resources in any integration arrangement between member countries, as well as in accepting the reduction in tariff revenues, which in theory should be compensated by an increase in consumer welfare; (b) pressure from major domestic agricultural and industrial groups which have operated in protected markets; and (c) civil strife and conflicts within and among countries that have adversely affected cooperation and integration within the subregion concerned.

2. Business sector participation

43. So far, in general, subregional and regional economic integration has been largely left to government officials, ministers and Heads of State, who met to adopt all the programmes and timetables for their implementation. The enterprise sector did not often participate in formulating these programmes, in particular the trade liberalization schemes and the corresponding list of products for preferential treatment. Consequently, the enterprises which normally should translate the agreed programmes into actual trade are often not aware of the opportunities for trade in products benefiting from preferences granted.

III. MAIN POLICY ISSUES AND RECOMMENDATIONS

A. Trade liberalization

44. Since the mid-1980s a wave of unilateral trade-liberalization has swept through many developing countries. The substance of this unilateral liberalization consists of a less interventionist stance by governments, and a market-oriented approach to trade and international financial flows.

45. The aim of trade liberalization is threefold: to expand trade in general, but North-South trade in particular, to reduce inefficiency in resource allocation and to save budgetary resources. Increased trade opportunities with the North stemming from global liberalization might however divert some existing trade from among developing countries, unless targeted efforts are made to encourage South-South trade as well. One particular consequence of global trade liberalization is the reduction in the value of concessions granted by developing countries to their partners entailed by the general tariff reductions. Many trade preference agreements of developing countries are affected by this trend.[9] Hence, **the Governments might wish to consider a serious re-examination of the existing intra-developing country preferential schemes and systems.** If developing countries wish to maintain the efficacy of such preferences, **the scope and contents of the mutual concessions may need to be expanded and deepened.** The Governments might also wish to consider **adopting a more comprehensive approach to exchanging concessions, whenever appropriate, such as across-the-board rather than line-by-line tariff concessions, or adoption of the negative rather than the positive list approach.**

46. In addition to the unilateral liberalizations, **the conclusion of the Uruguay Round will certainly have some impact on South-South trade.** However, there still seem to be varying opinions as to the nature and degree of its impact, especially on South-South trade, and **a study on this topic may be beneficial.**

47. On the other hand, liberalization of access per se could create opportunities for new trade among developing countries. For example, the abolition of import licensing and the various administrative restrictions should generate new opportunities for traders from other developing countries. This is particularly so since such obstacles usually hamper new traders in particular, smaller and less-established firms with modest networks in the importing countries, situations typical of developing country traders. Therefore, **the deregulation of quantitative and administrative access controls may contribute more to the expansion of South-South trade than North-South trade.** Similarly, **simplification and harmonization of tariff schedules, which many developing countries have been undertaking, may benefit South-South trade more than North-South trade** by reducing the administrative costs for exporters, importers and the tax administration.

48. It is however imperative to give due consideration to the problems of comparatively less developed countries even in the context of liberalization among developing countries. **Often the weaker partners in economic liberalization lack the adequate legal, institutional and social framework to cope with the rapid influx of foreign influence. Assistance in this area may be urgently needed to mitigate the consequences of liberalization and facilitate the smooth integration of less developed countries into the subregional, regional and global economy.**

49. The links between trade liberalization and direct investment generate a trade-growth interaction, especially relevant to integration and cooperation groups. In this context, if a country aims at promoting vertical integration by establishing downstream industries (i.e. assembly plants or processing firms rather than supplying parts or natural resources), facilitation of imports from other developing countries becomes an important element in the *growth-via-trade* strategy of development. Thus, when a country has chosen an outward-oriented strategy of development, **liberalization of trade and investment may better proceed hand in hand and, in particular, removal or mitigation of obstacles to intra-developing country investment should be encouraged.**

50. Trade liberalization has sometimes favoured imports of capital goods rather than consumer goods. In such cases, **it may be beneficial to facilitate South-South trade in consumer goods by partially opening up the markets to imports from developing countries.** In this way, the danger of being dominated by conglomerates from the North is mitigated, while the competitiveness of the sector can be enhanced by "testing" the market liberalization and the market will

be prepared for possible extensive liberalization in the future.

B. Monetary and financial cooperation

51. Since the vast majority of developing countries do not have specialized and fully fledged trade-finance facilities, **developing countries whose trade has reached a certain level and has become diversified enough may consider setting up such facilities**. Naturally, the critical question in this respect is the cost of resources, i.e. savings, diverted to trade finance from other development uses. This is a national policy question. Once a decision is made to establish such facilities, **most developing countries would need technical assistance in setting them up and perhaps initial low-cost funds to start up these programmes with sufficient seed money**. In this respect, **the international community can be of immense help to individual countries**. For example, **development banks or individual donors can consider extending such seed funds**.

52. Concerning UNCTAD, the Standing Committee on Economic Cooperation among Developing Countries, at its first session in January 1993, having acknowledged the importance of trade finance, decided to "consider studies on and keep under review developments in trade financing, covering the national, regional, subregional and interregional domains, in particular developments regarding the establishment of an interregional trade financing facility[10] and the strengthening of national trade financing facilities"[11]. The Standing Committee also envisaged technical assistance activities based on the needs revealed by these studies. For this purpose, the Committee requested the UNCTAD secretariat to advise on national and regional trade financing facilities.[12] In response to this mandate, the UNCTAD secretariat is preparing a study on the "analysis of progress in trade-finance facilities of developing countries with a view to identifying policy measures and technical assistance to improve their working methods, promote their establishment and identify possibilities of regional and interregional cooperation in trade finance"[13]. This report will be submitted to the Standing Committee at its third session in November 1995 for its consideration.

53. **As regards clearing and payments arrangements**, there are several possible actions that may strengthen their role and function. **The first is the possible expansion of existing regional/subregional schemes**. In particular, countries that have strong trade relationships with members of existing arrangements might have a special interest in joining them. **The second possible action, with the aim of improving the operations of multilateral payments arrangements, is the introduction of a mechanism similar to the two-tier Automatic Payments Program and the Triangular Trade Program of ALADI. The third possibility is to introduce a complementary mechanism similar to the Multilateral Currency Swap Arrangement of ACU, or the Reinsurance Company of PTA.**[14]

54. **On the interregional scale, linking existing arrangements might be envisaged**. In this context, the Second Conference of Central Bank Governors of Latin America and Africa, held at Santa Cruz de Tenerife in March 1994, considered technical proposals for such linkages, and reported on several possibilities therein.[15] Essentially, **the Governors outlined three options: direct links among clearing houses, multiple membership of countries involved in more than one payments scheme, and one interregional system**. In view of the accelerated move of many developing countries towards convertibility, the question might arise as to what purpose these arrangements would serve in the future. Several benefits might be cited in this connection, namely: (a) they offer credit access, and in the case of swaps, short-term balance of payments support; (b) they enable traders to bypass the intermediary of the international banking system and reduce the costs of intermediation; (c) they offer monetary cooperation services and help harmonize trade regulations; (d) in the process of attaining convertibility, they still save on foreign-exchange use for years; and finally (e) they contribute to the integration processes, especially as concerns financial and policy harmonization.

C. Trade information and support services

55. Various measures can be taken to eliminate or reduce the obstacles mentioned in chapter II.D. These include,[6] inter alia, the institution of programmes of reform for customs procedures that are identified as being inefficient or redundant with reference to international conventions on customs process simplification and harmonization; the increased use of information technology in customs procedures, such as the UNCTAD Automated System for Customs Data (ASYCUDA), which is already used by a large number of developing countries; the facilitation of access, by governments, to sources of economic and business information, for example, through the use of the UNCTAD Trade Analysis and Information System (TRAINS); and the establishment of a non-discriminatory and conducive policy framework for commercial suppliers of business information. The adoption of these reforms would allow developing countries to further integrate into the world market, thus providing a base from which South-South trade could be increased as well. Nonetheless, given the distinctive handicaps faced by South-South trade in this respect, specific action is required. In particular, **existing programmes and projects in the area of trade efficiency should pay particular attention to the promotion of South-South trade**.

56. Ultimately, however, utilization of such facilities rests on the trade and trade supporting sectors in developing countries. Setting up a trade information facility does not automatically lead to full utilization of such an investment without the participation of economic agents, particularly those of the private sector. Thus, **the promotion of human resources development and capacity building of the private sector in this area is of the utmost importance**.

D. Production and investment collaboration

57. The importance of expanding and diversifying agricultural and industrial production is recognized. In Latin America and the Caribbean, this issue nas been at the forefront of integration processes, yet only limited progress has been achieved. At present, new instruments and programmes are being developed by groupings in the region in support of the new trade liberalization programmes. For example, the Caribbean Community (CARICOM) adopted an enterprise regime aimed at promoting investment in high-priority sectors, combined with a regional industrial-programming scheme which is designed to make production systems more efficient, interconnected and internationally competitive. An additional function of this scheme is to identify projects which will be assigned among member States and which would benefit from preferential fiscal and financial treatment. In Africa also, new production integration programmes have been adopted and initiatives taken to remove obstacles to the free flow of capital and cross-border investment. For example, the member States of the Southern African Development Community (SADC) established a food security programme, undertook studies to improve the investment climate in their region, and are preparing a framework for the implementation of regional industrial projects. In addition, a cross-border investment initiative for eastern and southern African countries is being developed with international financial assistance. **In these two regions, the continued removal of barriers impeding intercountry investment flows and the establishment of conditions conducive to investment may need to be strengthened**. These include supportive policies and incentives, such as: (a) **tariff and fiscal advantages (tax "holidays")**; (b) **better access to local capital markets**; and (c) **more generous allowance for equity participation by foreign investors in the integration projects**. **There is also a need to establish investment information and promotion services**.

58. To some extent, progress in this direction is being made in south-east Asia where production integration is occurring mainly through pure business decisions, with intraregional investment playing an important role. Japan has invested in the region for quite some time and continues to do so. Surplus capital from the Republic of Korea is also moving into the east Asian region in search of cheap labour and investment opportunities. Hong Kong and India are increasing their capital flows to other countries within the region. Some of the production

initiatives are facilitated by formal arrangements. ASEAN, for example, created an industrial joint venture programme with Japanese and European automotive firms that spreads manufacturing of motor vehicles over several ASEAN countries. The emergence of "growth triangles" is another east Asian production-investment cooperation initiative. The growth triangles offer entrepreneurs the possibility of exploiting low labour and land costs in one country and surplus capital and technical sophistication in others to develop export-oriented industries and draw in investment. These include: the South China Triangle, covering Hong Kong, Taiwan Province of China and the coastal provinces of southern China; and the Southern Triangle, involving Singapore, the Malaysian State of Johore and the Riau Islands of Indonesia.

59. Another area deserving special attention is the encouragement and development of the enterprise sector, in view of its importance in promoting business and attracting foreign investment. **The development of the enterprise sector, especially in the regions where it is weak, should remain a high-priority item on the policy agenda.** Currently most groupings, such as ASEAN, PTA and the Andean Group to cite only a few, are taking measures to enhance the role of the enterprise sector in general, and the private sector in particular. **There is merit in strengthening the role of regional federations of chambers of commerce and industry, and associations of trading and/or manufacturing enterprises.** Almost all integration groupings are taking measures to do this.

E. Transport

60. For an effective promotion of South-South trade links and economic integration, it is evident that transport infrastructures and services must be improved. Since investment in this area requires significant financial resources, **there is a case for coordination and cooperation in order to take advantage of high economies of scale.**

F. Institutional aspects

61. Effective institutions at both subregional/regional and national levels are essential elements for the promotion of economic integration and cooperation. At the subregional/regional level there are several important issues to be considered. **There is a need to maintain consistency between the decisions taken at the regional and national levels, as well as ensuring that these decisions are implemented without unnecessary delays.** Where appropriate, **the rationalization of integration groupings and cooperation schemes should be accelerated.** In addition, **with respect to the groupings, there is a need to establish clear priorities in their objectives, adopt realistic timetables, monitor closely the implementation of the agreed programmes and undertake immediate corrective action. Those existing institutions should then be endowed with adequate financial and manpower resources.**

62. **At the national level, mechanisms should be established to deal with economic integration. In those countries that have such mechanisms, their areas of competence and their functions may need to be better defined and strengthened.** For example, the new organizational structure of ASEAN includes not only the central secretariat but also national secretariats in member States.

G. External support

63. As the internally generated resources of subregional/regional integration groupings are generally insufficient to implement their programmes, there is a strong case for international support to these groupings. For many years, most integration groupings have received financial and technical assistance, both bilateral and multilateral. Recently, donors from developed countries have indicated their willingness to increase their assistance to subregional/regional

integration groupings. However there is scope for improvement of such assistance and, in this connection, the recommendations of the Intergovernmental Group of Experts which met at Geneva from 27 June to 1 July 1994 can be considered as setting a framework within which ECDC entities and donors could conduct a fruitful dialogue on the issue of external support to economic integration among developing countries.[17]

References

1. See annexes I and II of the "Report of the Standing Committee on Economic Cooperation among Developing Countries on its first session" [TD/B/39(2)/16-TD/B/CN.3/5], held at Geneva from 11 to 15 January 1993.

2. The specific details relative to the trends in subregional, regional and interregional economic cooperation and integration are outlined in the document, "Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development" [TD/B/CN.3/9].

3. For details, see "Impediments and disincentives to trade among developing countries: a survey" [UNCTAD/ECDC/244].

4. "Evaluation of performances and issues of trade financing in developing countries: the case for and the viability of an interregional facility" [TD/B/1300], 2 September 1991, and "Trade financing in developing countries: an assessment and evaluation of existing schemes and future requirements" [TD/B/1300/Supp. 1], 2 August 1991.

5. For a description of existing clearing and payments arrangements and a statistical analysis of their recent performances, see "Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development" [TD/B/CN.3/9].

6. See "The Asian Clearing Union: an assessment and prospects", by Ercan Uygur of Ankara University, a note prepared by the UNCTAD Secretariat to the ACU Board of Directors, August 1994.

7. See "Impediments and disincentives to trade among developing countries: a survey" [UNCTAD/ECDC/244].

8. B. Levy, "An institutional analysis of the design and sequence of trade and investment policy reform", World Bank Economic Review 7, No. 2., 1993. See also "Analysis of trade and trade strategies among developing countries" [UNCTAD/ECDC/242].

9. See "Evaluation of progress achieved in the implementation of trade preferences among developing countries" [to be issued].

10. The feasibility and the need for an interregional trade-finance facility was examined by UNCTAD in 1991 in a whole series of studies. See TD/B/1300 and TD/B/1300/Supp.1, mentioned before, and "Feasibility study for an interregional trade financing facility for the exports of non-traditional goods of developing countries" [TD/B/1300/Supp. 2, TD/B/1300/Supp. 2/Rev 1], 31 March 1992. The findings of these reports were endorsed by an expert group. See "Report of the Expert Group on Trade Financing Mechanisms in and among Developing Countries" [TD/B/1313], 20 September 1991. In its resolution 394 (XXXVIII), the Trade and Development Board called upon the Secretary-General of UNCTAD to undertake consultations in this matter.

11. Item 6(c) of the programme of work of the Committee, annex II to the "Report of the Standing Committee on Economic Cooperation among Developing Countries on its first session" [TD/B/39(2)/16-TD/B/CN.3/5].

12. Ibid., item 7(c).

13. Revised Programme Budget 1994/1995, section IIA, subprogramme 13.6, section 3 (published material), item (ix) (A/48/6).

14. For details of these mechanisms, see "Review of major developments in the area of economic cooperation among developing countries, including regular consultations and technical support, assistance and skill development" [TD/B/CN.3/9].

15. See "Report of the meeting of the Co-ordination Committee on Multilateral Payments Arrangements and Monetary Cooperation among Developing Countries" [UNCTAD/ECDC/245]. Also "Institutional cooperation among African and Latin American clearing and payments arrangements" [UNCTAD/ECDC/237] and "Review and prospects of monetary and financial cooperation between African and Latin American countries" [UNCTAD/ECDC/239].

16. The following recommendations are taken from the "Final report of the Ad Hoc Working Group on Trade Efficiency" [TD/B/40(2)/L.6], 17 May 1994, which provides an extensive list of recommendations for governments on key issues for trade efficiency: customs, transport, banking and insurance, information for trade, business practices and telecommunications.

17. See the "Report of the Intergovernmental Group of Experts on Economic Cooperation among Developing Countries on its first session" [TD/B/CN.3/6 and TD/B/CN.3/GE.1/5].